

## Message Text

CONFIDENTIAL

PAGE 01 SANTIA 02158 101510Z

44

ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 ARAE-00 SSO-00 NSC-05 NSCE-00

SP-02 L-01 INR-05 INRE-00 CIAE-00 DODE-00 EB-03 PRS-01

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O R 101432Z APR 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC IMMEDIATE 2830

INFO AMEMBASSY BUENOS AIRES

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY BRASILIA

AMEMBASSY MONTEVIDEO

AMEMBASSY ASUNCION

C O N F I D E N T I A L SANTIAGO 2158

LIMDIS

EO 11652: GDS

TAGS: PINT, CI

SUBJECT: BEHIND THE CHILEAN CABINET CHANGE

REF: SANTIAGO 2155

1. SUMMARY: ALL GOC CABINET MINISTERS PRESENTED RESIGNATIONS TO PRESIDENT PINOCHET LATE AFTERNOON APRIL 9, IN ORDER TO GIVE PRESIDENT COMPLETE FREEDOM TO DEAL MOST EFFECTIVELY WITH CURRENT ECONOMIC PROBLEMS. CABINET SOURCE EXPECTS MORE CIVILIANS TO BE IN NEW CABINET, CIVILIANS TO DISPLACE MILITARY AS TOP EXECUTIVES OF CERTAIN STATE ENTERPRISES, AND PRESENT FINANCE MINISTER JORGE CAUAS TO BECOME ECONOMIC "CZAR." MEASURES ARE DESIGNED TO GET DEFICIT SPENDING UNDER CONTROL AND THUS CURB RAMPANT INFLATION. COUNTRY IS ENTIRELY NORMAL. JUNTA PRESS SPOKESMAN SAYS CHANGES MAY TAKE WEEK OR TEN DAYS. END SUMMARY.

2. LATE APRIL 9 GOC ANNOUNCED THAT CABINET HAD RESIGNED, IN  
CONFIDENTIAL

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PAGE 02 SANTIA 02158 101510Z

ORDER TO GIVE PRESIDENT FULL FREEDOM TO COPE WITH ECONOMIC

SITUATION. MOVE CAME WITHOUT ADVANCE WARNING, AT END OF CABINET MEETING. JUNTA PRESS SPOKESMAN FEDERICO WILLOUGHBY TOLD ME INCUMBENTS WOULD CONTINUE IN POSTS FOR PERHAPS WEEK TO TEN DAYS, WHILE NEW CABINET IS FORMED. HE SAYS, QUITE RIGHTLY, THAT THIS IS NOT A CRISIS MOVE, IN SENSE THAT IMMEDIATE ACTION WAS NOT NECESSARY. COUNTRY RECEIVED NEWS AS AN UNEXPECTED BUT NOT ESPECIALLY SENSATIONAL DEVELOPMENT, WITHOUT A BREAK IN DOMESTIC CALM.

3. MINISTER OF ECONOMIC COORDINATION RAUL SAEZ TELEPHONED TO GIVE ME HIS ESTIMATE OF SITUATION. MADE IT CLEAR CABINET REORGANIZATION IS OUTGROWTH OF SERIOUS INTERNAL ECONOMIC DEVELOPMENTS WE HAD BEEN DISCUSSING. SOMETHING HAD TO BE DONE TO CURB EXCESSIVE SPENDING BY GOVERNMENT DEPARTMENTS AND STATE-OWNED ENTERPRISES. OTHERWISE, INFLATIONARY PRESSURES WOULD GET COMPLETELY OUT OF HAND. (BLEAK FOREIGN ECONOMIC AND BALANCE OF PAYMENTS OUTLOOK AND FOREIGN BORROWING CRUNCH ARE OBVIOUS CONTRIBUTORY FACTORS.)

4. SAEZ EXPECTS GOC TO MAKE FOLLOWING CHANGES INTER ALIA IN RECONSTITUTING CABINET. FIRST, FINANCE MINISTER JORGE CAUAS WILL BECOME ECONOMIC "CZAR," WITH AUTHORITY TO MAKE EXPENDITURE CUTS STICK. SECOND, THERE WILL PROBABLY BE FOUR NEW CIVILIAN MEMBERS IN CABINET, REPLACING HEAVY-SPENDING SERVICE MINISTERS OF PUBLIC WORKS, MINES, AND HOUSING-URBAN DEVELOPMENT, AS WELL AS CARABINERO JUSTICE MINISTER. THIRD, ECONOMIC MINISTER LENIZ, WHO IS PHYSICALLY EXHAUSTED, WILL MOVE TO A TECHNICAL POSITION OF LESSER SCOPE, PERHAPS MINISTER OF MINES OR PUBLIC WORKS OR HEAD OF CORFO (GOVERNMENT DEVELOPMENT CORPORATION). FOURTH, SAEZ HIMSELF WILL CONTINUE TO HANDLE FOREIGN FINANCIAL RELATIONS AND IS UNDER GREAT PRESSURE TO SERVE SIMULTANEOUSLY AS SPECIAL ADVISER TO PINOCHET ON ECONOMIC, SOCIAL AND POLITICAL QUESTIONS. RELUCTANTLY, HE WILL PROBABLY AGREE TO DO SO. FINALLY, THE CENTRAL BANK AND CORFO WILL BE HEADED BY CIVILIANS.

5. SAEZ IS CONVINCED THAT THESE CHANGES WILL MATERIALLY ENHANCE GOVERNMENT'S CAPABILITY TO HANDLE ITS ECONOMIC PROBLEMS. THERE IS MUCH TO BE SAID FOR THIS VIEW. AS ECONOMIC "CZAR," ABLE, ENERGETIC JORGE CAUAS SHOULD HAVE FAR MORE INFLUENCE THAN FORMER THREE-MAN CIVILIAN ECONOMIC TEAM IN CABINET (SAEZ, CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SANTIA 02158 101510Z

LENIZ, CAUAS); ISOLATED IN A MILITARY ORGANIZATION, THEY ENJOYED ONLY SECOND-CLASS STATUS AND COULD NOT ADEQUATELY CONTROL OTHER MINISTERS, MUCH LESS THE MEMBERS OF THE JUNTA. SAEZ HAS PRIVATELY COMPLAINED TO ME MORE THAN ONCE OF CHILEAN MILITARY'S LACK OF GRASP OF ELEMENTARY ECONOMIC REALITIES AND THEIR PROPENSITY FOR IMPULSE SPENDING. CRUCIAL POINT NOW WILL BE EXTENT TO WHICH CAUAS, IF APPOINTED, WILL COMMAND PINOCHET'S SUPPORT FOR PAINFUL DEFLATIONARY MEASURES REQUIRED

-- INCLUDING THOSE ENTAILING CUTS IN MILITARY EXPENDITURE.

6. SAEZ'S PERSONAL MOVE WILL ALSO BE TIMELY. IT WAS IMPOSSIBLE TO EXPECT HIM TO COORDINATE THE CHILEAN ECONOMY IN ANY REAL FASHION WHILE AT THE SAME TIME JETTING BACK AND FORTH TO FOREIGN CAPITALS TO PLUG UP THE HOLES IN CHILE'S CREDIT STANDING. SAEZ DID NOT BUILD UP A STAFF OR COORDINATE SYSTEMATICALLY. AS PRESIDENTIAL ADVISER, HE WILL STILL BE SPREAD TOO THIN, BUT HE HAS DONE YEOMAN SERVICE IN PREACHING GOOD SENSE ON HUMAN RIGHTS TO THE JUNTA, AND HIS CONTINUANCE IN THAT ROLE MAY REPRESENT THE GREATEST CONTRIBUTION HE COULD MAKE.

7. SAEZ'S PREDICTIONS MAY NOT MATERIALIZE IN PRECISELY THE FORM HE INDICATES. THERE IS LIKELY TO BE REAL POWER STRUGGLE BETWEEN THOSE WHO THINK CHILE CAN AVOID ECONOMIC DISASTER ONLY THROUGH DEFLATION IN A MARKET ECONOMY, WHATEVER THE HUMAN COSTS, AND THOSE WHO BELIEVE THAT CHILE CAN ESCAPE A POLITICAL EXPLOSION ONLY THROUGH A TIGHTLY CONTROLLED ECONOMY WITH A MORE EGALITARIAN CAST. AT THE MOMENT, THE FORMER GROUP IS IN THE ASCENDANT. BUT IN AN AUTHORITARIAN GOVERNMENT HEADED BY NOVICES IN THE ECONOMIC FIELD, MINOR OR MAJOR CHANGE IS POSSIBLE AT ANY TIME.

8. IT REMAINS TO BE SEEN WHETHER CIVILIANS OF APPROPRIATE STATURE CAN BE FOUND TO MAN POSTS NEWSLY AVAILABLE TO THEM. JUNTA HAS OFTEN TAKEN AN ARROGANT, CONDESCENDING LINE TOWARD CIVILIANS, ESPECIALLY THOSE REGARDED AS TAINED BY ASSOCIATION WITH POLITICAL ACTIVITY. PINOCHET'S RECENT STATEMENTS THAT MORE CIVILIANS WOULD BE BROUGHT INTO GOVERNMENT WERE COUPLED WITH A CONTEMPTUOUS REFERENCE TO POLITICAL PRACTICES AND A CLEAR INFERENCE THAT IT WAS FOR THE MILITARY TO COMMAND AND FOR CIVILIANS TO SHAPE UP. MUCH WILL DEPEND ON WHETHER THE

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PAGE 04 SANTIA 02158 101510Z

JUNTA CAN LEARN TO COOPERATE WITH THOSE WITH WHOM IT DOES NOT ENTIRELY AGREE.

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## Message Attributes

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